

YOUR VESTED INTEREST

North Dakota State Investment Board

October 2014

FROM THE DIRECTOR'S CHAIR

The Retirement and Investment Office is pleased to report that both PERS and TFFR have exceeded their 8% return objective (by a significant margin) during the last 1, 3, and 5 year periods ended June 30, 2014. More importantly, both retirement plans have exceeded the long-term expected 8% return target over the past 30 years.

Asset Allocation

Asset allocation is the primary driver of investment results but active management is important. TFFR and PERS generated net investment returns of 16.5% and 16.4%, respectively, for the

fiscal year ended June 30, 2014. Asset allocation decisions were responsible for 95% of these strong results noting that both plans maintain a 57% target allocation to global equities which rose by over 20% during the past year. The plans' 22% target allocation to global fixed income was also positive and generated an 8% return in the last fiscal year. Real assets, with a 20% target asset allocation, were mixed with real estate increasing by over 16% and infrastructure (including hospitals, regulated utilities, and wind farms) increasing by over 9%, while timber assets posted a disappointing return of less than 3%.

Active investment management played a meaningful role by delivering \$15 million of incremental income for both TFFR and PERS (or \$30 million in aggregate). Successful active



David Hunter
Executive Director/CIO

management results when an investor selects portfolio managers which outperform an underlying benchmark index. For the year ended June 30, 2014, active investment management generated about three-fourths of 1% (or 0.75%) of incremental income for the combined plans. Based on over \$4 billion of combined asset values,

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State Investment Board (SIB)

Lt. Governor Drew Wrigley, *Chair*
Mike Sandal, *PERS Trustee, Vice Chair*
Clarence Corneil, *TFFR Trustee*
Lance Gaebe, *Land Commissioner*
Mike Gessner, *TFFR Trustee*
Adam Hamm, *State Insurance Commissioner*
Rob Lech, *TFFR Trustee*
Kelly Schmidt, *State Treasurer*
Yvonne Smith, *PERS Trustee*
Cindy Ternes, CPA, *Designee WSI*
Tom Trenbeath, *PERS Trustee*

RIO Administrative Office

David Hunter, *Executive Director/CIO*
Fay Kopp, *Deputy Executive Director/
Chief Retirement Officer*
Darren Schulz, *Deputy CIO*
Shelly Schumacher, *Editor*

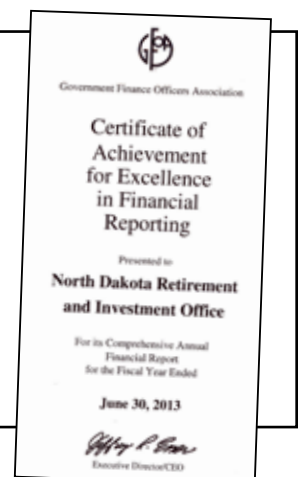
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Achievement Award Received

The ND Retirement and Investment Office (RIO) is pleased to announce that for the 16th consecutive year its Comprehensive Annual Financial Report (CAFR) was recognized for achieving the highest standards in state and local government accounting and financial reporting. The Government Finance Officers Association (GFOA) awarded its Certificate of Achievement for Excellence in Financial Reporting to ND RIO for its 2013 CAFR.



From The Director's Chair *Continued from page 1*

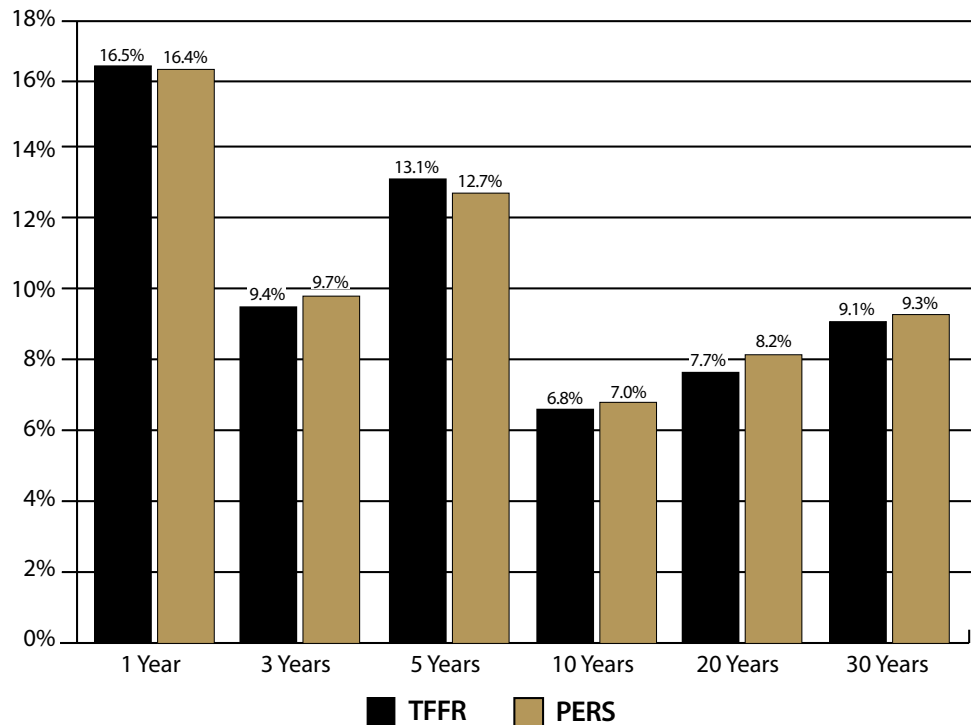
this translates into \$30 million of additional income in the last year.

Peer Performance

TFFR and PERS generated gross investment returns in the top half of all public pension plans in the Callan Associates Public Fund Sponsor Database for the last 1, 3, 5, and 10 year periods ended June 30, 2014. During the last year, TFFR posted a 16.9% gross return which ranked in the top 37%, while PERS posted a 16.7% return which ranked in the top 40%. This strong performance relative to peers was generated during a period in which both the TFFR and PERS funds exhibited lower risk (or standard deviation) than most other public U.S. pension plans. Both retirement plans have made strategic decisions to lower their overall risk profile (as measured by standard deviation) in the last decade.

Net Investment Performance

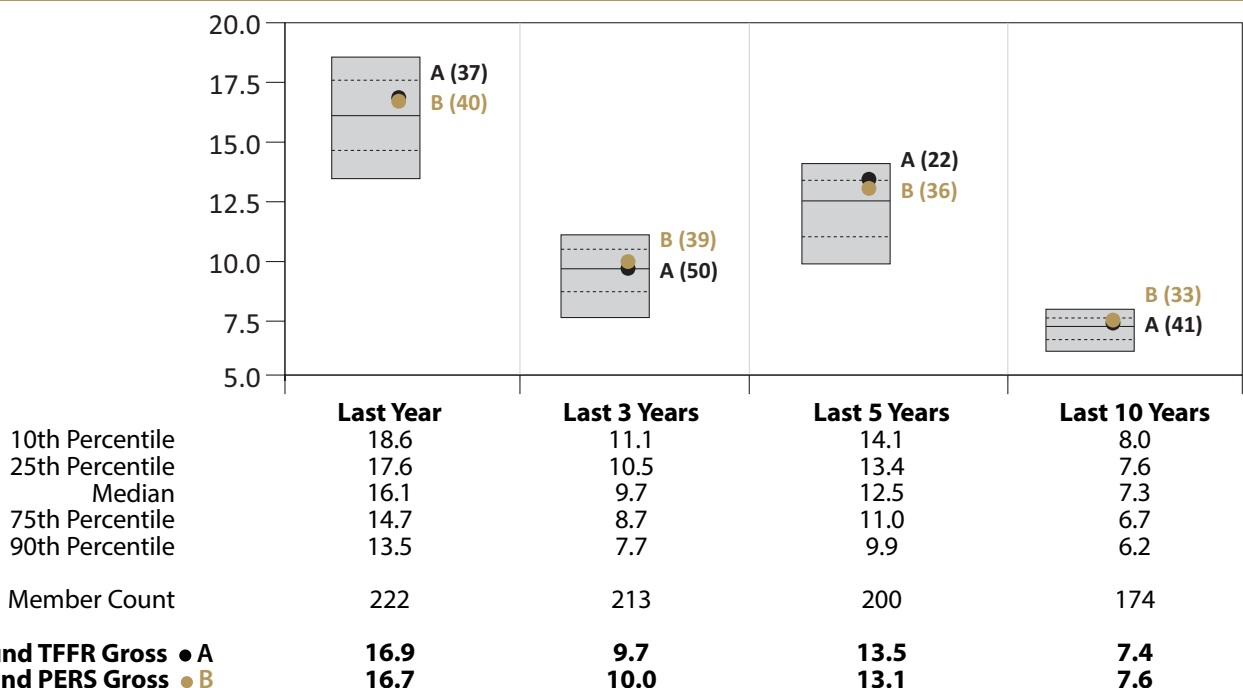
For Periods Ending June 30, 2014



Note: Over the last 30 years, the TFFR and PERS plans have been successful in generating net investment returns of 9.1% and 9.3%, respectively. This actual performance serves to support the long-term 8% expected return assumption, particularly given the more favorable results experienced during the last 1, 3, and 5 year periods.

Gross Returns for Periods Ended June 30, 2014

Callan Public Fund Sponsor Database



PERS & TFFR Target Asset Allocations

Global Equity 57%

- U.S.	31 %
- International	21 %
- Private	5 %

Global Fixed Income 22%

- U.S.	17 %
- International	5 %

Global Real Assets 20%

- Global Real Estate	10 %
- Timber	5 %
- Infrastructure	5 %

Cash 1%

Special Thanks to Howard Sage

Many thanks to Howard Sage for his years of dedicated service on the State Investment Board (SIB). Mr. Sage represented PERS on the State Investment Board.



Howard Sage

SIB Audit Committee


The Audit Committee is the only standing committee of the State Investment Board (SIB). This committee is authorized to develop and direct the audit program for the Retirement and Investment Office (RIO), as well as, oversee the annual external audit function. RIO employs a Supervisor of Audit Services and one staff auditor.

The Audit Committee meets regularly to conduct essential business and contributes to the overall sense of fiscal security that RIO strives to maintain in its role as administrator of the State Investment Board and Teachers' Fund for Retirement programs.

The SIB Audit Committee consists of five members - three from the SIB and two independent participants. Current members include Mike Gessner, representing the Teachers' Fund for Retirement; Mike Sandal, representing the Public Employees Retirement System; and Cindy Ternes, designee of the Executive Director of Workforce Safety & Insurance, representing elected and appointed officials. Rebecca Dorwart, CPA, CIA with MDU Resources Group, Inc. and Karol Riedman, CPA, CIA, CGMA employed by the ND Department of Health, serve as independent participants on the Committee.

Thanks to Lonny Mertz

Many thanks to Lonny Mertz for ten years of dedicated service on the State Investment Board Audit Committee. Lonny served as an independent participant on the Committee and his seat has been filled by Karol Riedman.



Focus on Fees

The Retirement and Investment Office regularly meets with SIB investment advisors to ensure we obtain competent and prudent investment services at a competitive price. During the past year, investment management fees as a percentage of average assets under management declined from 0.65 % to 0.50 %. A significant reduction in performance fees represented about 75 % of the fee reductions and structural changes accounted for 25 % of the fee savings. Based on average total assets under SIB management of approximately \$8.6 billion, this translates to nearly \$13 million of reduced fees for the year ended June 30, 2014 (e.g. \$8.6 billion times 0.15 % = \$12.9 million).

New SIB Board Member

Please welcome Yvonne Smith, PERS Trustee, to the State Investment Board. Ms. Smith represents retired state employees on the PERS Board.



Yvonne Smith



**NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE**
*Teachers' Fund for Retirement
State Investment Board*

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SIB Officers Elected

The State Investment Board (SIB) recently held its annual election of officers. The SIB chose the following members to hold leadership positions for the 2014-15 fiscal year.



Lt. Governor
Drew Wrigley
– Chairman



Mike Sandal
– Vice Chairman



Clarence Corneil
– Parliamentarian